

Press Release

Metalfab Hightech Private Limited

November 09, 2019

Ratings

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Rating Assigned
1.	Long Term Fund Based – Cash Credit	33.50	IVR BB / Stable Outlook (IVR Double B with Stable Outlook)
2.	Long Term Fund Based – Term Loan	9.92	IVR BB / Stable Outlook (IVR Double B with Stable Outlook)
3.	Short Term Non Fund Based – Letter of Credit	22.90	IVR A4 (IVR A Four)
4.	Short Term Non Fund Based – Bank Guarantee	34.10	IVR A4 (IVR A Four)
	Total	100.42	

Details of Facilities are in Annexure 1

Detailed Rationale

The rating derives strength from experienced promoters with long track record of operations, reputed customers with diversified product base, coherent manufacturing facilities and moderate order book. However, the rating strengths are partially offset by risks related to decline in scale of operations, low net profitability and moderate debt protection metrics and order based business model leading to working capital intensive nature of operations.

Key Rating Sensitivities

Upward Factors:

- Improvement in scale of operations
- Improvement in net operating margins
- Significant improvement in debt protection metrics

Downward Factors:

- Fall in scale of operations
- Deterioration in margins and/or debt protection metrics
- Timely completion of orders

List of key rating drivers with detailed description

Key Rating Strengths

Experienced promoters with long track record of operations

Metalfab Hightech Private Limited (MFHPL) is a closely held, family run company. The promoters have gained extensive experience of the industry with the company starting its operations since 1996. The board is led Mr Pramod Jain, Chairman, with more than 4 decades of relevant experience in the heavy engineering sector. He oversees the commercial aspects including banking and taxation associated with the company, while Mr. Sandeep Jain, Managing director, has an overall experience of more than 3 decades and is responsible for the daily operations at Unit I. Likewise, Mr. Sahil Jain, director, has industry experience of around 10 years and oversees the daily operations of Unit 2.

Reputed customers and diversified product base

MFHPL has presence in heavy fabrication catering to core sectors like Power, Sugar, Cement and Infrastructure. Over the years, the company has established relationship with reputed clients resulting in timely inputs of raw materials. With the recent realigning of their product profile, the company presently has a diversified portfolio to offer.

Coherent Manufacturing Facilities

MFHPL's all-in-one in house manufacturing facilities and offices situated in Nagpur are spread over 85,000 sq.mts. (Approx 22 acres) with a total covered area of 26,500 sq.mts. In total, the company has 18 fabrication bays. Also, the company has 6 Blasting booths and 11 Painting booths, with maximum handling capacity inside the bay and in the open area is 90MT.

Moderate order book

The outstanding order as on August 31, 2019 stood at Rs. 133.90 crore to be fulfilled by March 31, 2020. Out of this total order book, the company expects to complete at least ~65% of the demand and book revenue for the same.

Key Rating Weakness

Decline in scale of operations

The company's operating income has seen a constant decline over the last three fiscals, i.e. from Rs. 140.37 crore in FY17 to Rs. 100.22 crore in FY18 to Rs. 97.66 crore in FY19. This

decline is largely due to the recent realignment of their product profile offering due to change in their business model. The company has booked Rs. 40.30 crore in revenue until August 31, 2019 and further expects to improve the income with its existing order book.

Low net profitability and Moderate debt protection metrics

Though the EBIDTA remained in line between 13%-15% over FY17 to FY 19, the company couldn't manage high net margins mainly due to higher interest costs incurred. The company's debt protection metrics remain moderate with interest coverage 1.37x in FY19 when compared to 1.34x in FY18.

Order based business model leading to working capital intensive nature of operations

MFHPL's business model is order driven where in each order is customized as per the specific needs of the end user. Orders received are generally capital intensive, mainly involving fabrication work. The inventory level is high at 219 days in FY19, due to the long gestation period required in converting raw materials into finished goods. Altogether, working capital cycle is stretched due to blockage of funds in the form of inventory and receivables.

Analytical Approach & Applicable Criteria

Standalone

Financial Ratios & Interpretation (Non-Financial Sector)

Rating methodology for manufacturing companies

Liquidity

Stretched liquidity marked by repayment obligations, highly utilized bank limits and modest cash balance of Rs. 0.26 crore as on March 31, 2019.

About the Company

Metalfab Hightech Private Limited (MFHPL) is a certified engineering company engaged in Heavy Fabrication for all the core sectors like Power, Sugar, Cement and Infrastructure with a major thrust in Thermal and Wind Power. The company is well equipped with machineries and facilities for Material preparation, Forming, Welding, Machining, Material Handling and Surface preparation. Established in 1981, the family owned company employs 800 people.

Financials
(Rs. crore)

For the year ended* / As On	31-03-2018 (Audited)	31-03-2019 (Audited)
Total Operating Income	100.22	97.66
EBITDA	14.79	15.05
PAT	1.16	0.36
Total Debt	58.38	57.78
Tangible Net worth	40.22	40.58
EBITDA Margin (%)	14.76	15.41
PAT Margin (%)	1.16	0.37
Overall Gearing Ratio (x)	1.45	1.42

**Classification as per Infomerics' standards.*

Status of non-cooperation with previous CRA: CRISIL had migrated the rating of Metalfab Hightech Private Limited into the Issuer Non-Cooperating category as the company did not co-operate in the rating procedure despite repeated follow ups as per the Press Release dated August 29, 2019.

Any other information: N.A

Rating History for last three years:

Sl. No.	Name of Instrument/ Facilities	Current Rating (Year 2019-20)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18	Date(s) & Rating(s) assigned in 2016-17
1.	Long Term Fund Based – Cash Credit	Long Term	33.50	IVR BB/ Stable outlook	--	--	--
2.	Long Term Fund Based – Term Loan	Long Term	9.92	IVR BB/ Stable outlook	--	--	--
3.	Short Term Non Fund Based –Letter of Credit	Short Term	22.90	IVR A4	--	--	--
4.	Short Term Non Fund Based – Bank Guarantee	Short Term	34.10	IVR A4	--	--	--

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

Name and Contact Details of the Rating Analyst:

Name: Mr. Parth Dattani

Tel: (022) 62396023

Email: pdattani@infomerics.com

Name: Mr. Sriram Rajagopalan

Tel: (022) 62396023

Email: srajagopalan@infomerics.com

About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Fund Based – Cash Credit	--	--	--	33.50	IVR BB/ Stable outlook
Long Term Fund Based –Term Loan	--	--	--	9.92	IVR BB/ Stable outlook
Short Term Non Fund Based –Letter of Credit	--	--	Upto 180 days	22.90	IVR A4

Short Term Non Fund Based –Bank Guarantee	--	--	One year	34.10	IVR A4
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